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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 0538
INFO RUEHBO/AMEMBASSY BOGOTA 7664
RUEHLP/AMEMBASSY LA PAZ FEB LIMA 0942
RUEHQT/AMEMBASSY QUITO 2755
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L CARACAS 000136

SIPDIS

SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
NSC FOR JCARDENAS AND JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 01/10/2018

TAGS: [ECON](#) [EFIN](#) [VE](#)

SUBJECT: REVISED INDEX SHOWS CONTINUED HIGH INFLATION IN
JANUARY

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4 (b) and (d).

¶1. (SBU) According to the newly revised official consumer price index (CPI), inflation rose to 3.4 percent in January 2008. This figure, which works out to 50 percent on an annual basis, is slightly higher than the 3.3 percent inflation figure from December 2007, and will put additional pressure on the BRV to contain inflation. (Note: Shortly after taking over as Finance Minister, Rafael Isea said that the BRV's goal for inflation for 2008 was 11 percent. Most economists consider this unrealistic, with predictions ranging from 22 to 35 percent. End note.) The January figure was below some local observers' expectations: both the president of a local consumer research firm and a former Central Bank (BCV) economist predicted it would be above 4 percent. (Note: Inflation is typically higher in January than on average due to seasonal factors. Price increases levied as merchants changed their price tags from bolivars to bolivars fuerte due to the currency redenomination process is another reason to expect that the January figure will turn out to be higher than the 2008 monthly average. End note.)

¶2. (SBU) The January inflation figure is based on a revised CPI indexed to price levels in December 2007. The previous CPI, which was in effect from 2000 to 2007, was based on a basket of goods and services developed from a 1997-1998 household survey. The revised CPI, announced by the BCV on January 25, is based on a new basket, developed from a 2004-2005 household survey. In addition to changing the basket and the weights given to its various components, the BCV instituted other technical changes and specified a multi-step process for accounting for goods absent from the shelves during the monthly price survey. (Note: A powerpoint presentation describing these changes is available on the BCV website. We understand that the process for accounting for absent goods does not represent a major change from previous practice. End note.) The revised CPI is the first of several changes to inflation measurement expected during 2008: in April, the National Statistics Institute (INE) and the BCV plan to unveil a national CPI, which will replace the metropolitan Caracas CPI as the official measure of inflation.

¶3. (C) Comment: As even President Chavez has acknowledged, inflation has become a key political concern, and measurement

of inflation is therefore a potentially contentious process. While it is widely understood that the official measure of inflation does not capture the impact of shortages and the resulting black market in price-controlled goods, to date we have seen no indication that the BCV is fudging the numbers. Revising the CPI to reflect changes in consumption is standard practice, and there is no reason to believe that the decision to do so was politically motivated. Nonetheless, as inflation becomes increasingly contentious there is cause for concern. The BRV has a history of falsely reporting numbers ranging from oil production to dengue fever cases, and the process for accounting for goods absent from the shelves does offer room for discretion. End comment.

DUDDY